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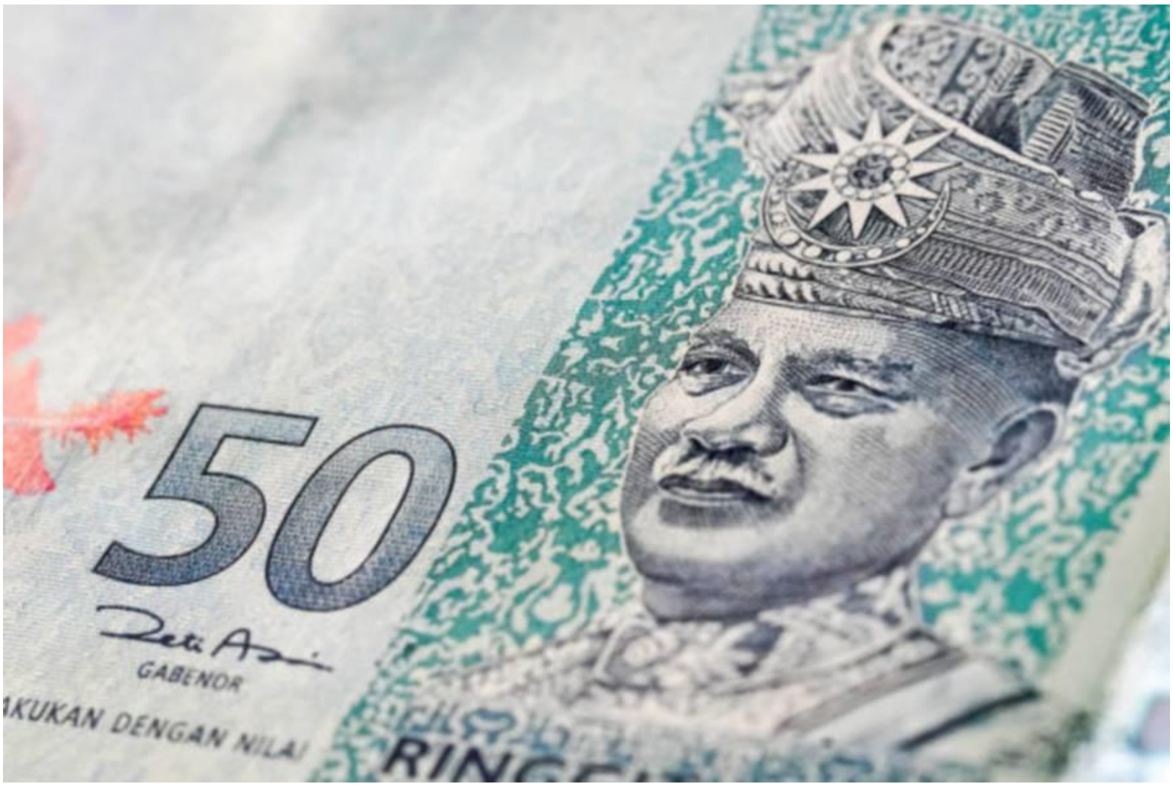
Experts says pressure on ringgit likely to continue

By S. BIRRUNTHA - February 15, 2024 @ 7:58am



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KUALA LUMPUR: Market insiders predict that if the US Federal Reserve (Fed) keeps interest rates the same, pressure on the ringgit will not abate.

With inflation cooling off less than anticipated in January to 3.1 per cent year over year, the US is now only projected to lower rates in June at the least.

This anticipation, according to Putra Business School economic analyst Associate Professor Dr. Ahmed Razman Abdul Latiff, is expected to maintain the US dollar's strength in relation to other currencies, such as the ringgit.

He said that if interest rates in the US stay the same, Bank Negara Malaysia is unlikely to further lower the overnight policy rate (OPR).

"However, if the inflation rate in the US starts to fall further, there will be a possibility of an interest rate cut, which might ease pressure on the ringgit.

"But at the moment, the possibility of the inflation rate in the US going down is remote. BNM probably has less room to maneuver and can only continue monitoring intently," he told Business Times.

Sharing similar views, Center for Market Education (CME) chief executive officer Carmelo Ferlito said that Tuesday's opening of the ringgit reflected the potential negative impact of the Federal Reserve's decision to maintain higher rates for a longer period than expected.

At the same time, Ferlito noted that there is no compelling reason for Bank Negara to change its approach, as adjustments to the domestic OPR are likely to prove ineffective under the current circumstances.

"We should not forget that the greenback is supported not only by Fed rates but also by the climate of international uncertainty, which favours the US dollar as it remains considered the best currency in terms of reserve value in moments of uncertainty.

"This is testified by the fact that all the discussions about de-dollarisation are not really affecting the US dollar," he said.

Ferlito noted that inflation remains historically low in Malaysia, currently at 1.5 per cent, indicating no immediate need for a shift in policy at the Bank Negara level.

He also said that the producer price index does not raise any alarming concerns regarding maintaining the current low inflation rate.

As such, he stressed the importance of responsible fiscal policy, particularly in avoiding deficit spending, as a key factor in sustaining this stability.

Bank Muamalat Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid believes that the ringgit is likely to remain weak in the near term, given the Fed's expected continuation of its hawkish stance.

He added that there is also a strong reason for Bank Negara to maintain the OPR at the prevailing level in order to ensure that the interest rate differential with the Fed Fund Rate will be kept steady.

"I don't think that Bank Negara would respond based on what the Fed is currently doing. The central bank will respond to inflation and growth.

"Thus far, Bank Negara has demonstrated its credibility by raising the OPR from 1.75 per cent to three per cent between 2022 and 2023.

"This has resulted in a lower inflation rate, from 3.3 per cent in 2022 to 2.5 per cent in 2023.

"So Bank Negara has managed to contain inflation by implementing a restrictive monetary policy stance," he noted.

Afzanizam said the main concern now is how this is going to affect Malaysia's gross domestic product (GDP) growth in 2024.

He said that should GDP grow between four per cent to five per cent as projected, then Bank Negara may want to maintain the OPR.

"At the same time, I believe they will stay vigilant, as risks to growth will stand ready to respond accordingly," he added.

Federal Reserve officials are holding off on cutting interest rates further for now, as a recent government report revealed that consumer prices stayed high in January, according to Reuters.

Core inflation, which excludes volatile food and energy prices, remained elevated at 3.9 per cent.

This persistence in inflation is concerning for the Fed, which aims for a two per cent inflation rate.

While acknowledging some progress, Fed Chair Jerome Powell reportedly suggested that it's too early to determine if inflation is under control.

With the job market still robust, as evidenced by the addition of over 350,000 jobs in January, the Fed sees little urgency to cut rates.

Following the latest inflation report, Reuters reported that traders who were expecting a rate cut in April or May are now looking towards June as a more likely timeframe.

Some analysts even speculate that rate cuts might be postponed until September if inflation remains high for another month or two.